# Market Update - Employee Benefits

## November 2017

### At a glance

- The MSCI World Equity Index outperformed the MSCI Emerging Market Index, with the former gaining 1.99% and the latter a miniscule 0.15% - both in Dollar terms.

- Whilst global equities gained overall in Dollar terms, there was considerable regional divergence with US stocks advancing whilst European and UK stocks retreated.

- Investor confidence in the US was supported by optimism surrounding the proposed tax reforms which were likely to improve corporate profitability.

- Eurozone equities experienced some selling pressure as a result of currency strength as well as uncertainty surrounding the collapse of talks related to the formation of a new coalition government in Germany.

- Optimism over Brexit talks resulted in sterling strengthening, which in turn resulted in large global caps and resources coming under selling pressure.

- The Japanese TOPIX continued its advance, driven by continued improvement in corporate earnings which by and large exceeded expectations.

- In spite of the S&P downgrade, the JSE/FTSE All Share managed to return 1.46% whilst the Top40 returned 1.43% both in total return terms.

## Global.

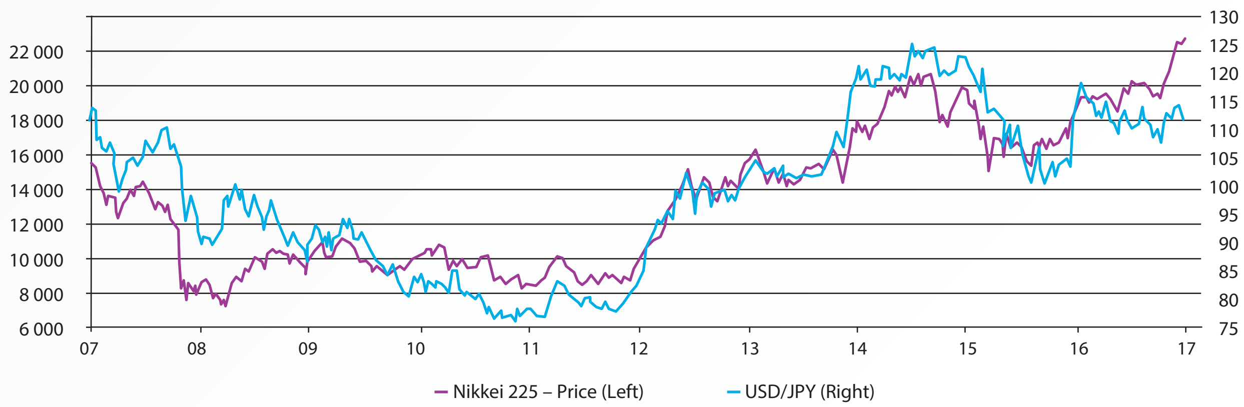
Macroeconomic data in the US continued to confirm a positive trend and this was reflected in equities maintaining their improvement. The Trump administration's proposed tax reforms gained traction in both the Senate and Congress which provided further impetus for the markets. All the major US equity indices traded at record highs, with the Dow Jones returning 3.83%, the S&P 500 2.81% and the tech heavy NASDAQ 2.17%.

The unemployment numbers reversed from a weaker September to record that 261,000 jobs were added in October. Manufacturing production eased during the month but still remained at multi-year highs. The Federal Reserve continued to point to a December interest rate hike, citing solid economic growth as opposed to the previous month's moderate growth, as justification for the move. Telecommunications, consumer staples and consumer discretionary were the best performers, whilst in view of the Fed's comments relating to interest rates, proxy stocks such as utilities and real estate came under selling pressure.

Eurozone stock markets delivered negative returns with the MSCI EMU Index registering a -2.0%. Largely to blame for this was a surge in the value of the Euro, coupled with profit taking following the market's strong gains over the year. The only sector to deliver positive returns was Real Estate.

Economic data remains decidedly positive with many forward looking economic indicators pointing to strong momentum. Germany's GDP rate on an annualised basis rose to 3.3% in Q3. Markit's employment index indicated jobs being created at the fastest pace in 17 years, whilst the Markit flash purchasing managers index came in at 57.5 which was a six and a half-year high. The Eurozone unemployment number declined to 8.8% from the previous month's 8.9%.

Brexit continued to influence the UK market with improved hopes for a compromise resulting in sterling strengthening. In spite of an improving global macroeconomic backdrop, overseas focused and large cap sectors of the market fared badly with the FTSE All-Share Index declining -1.7%. In spite of sluggish economic growth the Bank of England's monetary policy committee decided to raise interest rates from 0.25% to 0.50%. This was the first time rates had been raised since November 2007. The oil and gas sector was the best performer against a backdrop of rising oil prices and improved corporate results.




Source: GTC/FactSet

The Japanese stock market experienced considerable volatility over the month. Initially a follow through of October's strong rally saw the market reach a 26 year high.

However this was short-lived as the market experienced a sharp downturn mid-month but staged a recovery towards the end with the TOPIX up 3.1% in Dollar terms.

The Yen was generally strong over the month but it seems that there is now a weakening in the correlation between the Yen and the equity market.

Asian markets experienced a downturn at month end as the contagion from the sell-off in US technology stocks spread to the region. In China, consumer and technology stocks gained more ground during the month, with Tencent powering the Hang Seng Index to a 10 year high, before a brief sell-off occurred going into month- end.

In emerging markets, following on spectacular year-to-date earnings, the performance of the markets was much more subdued posting slight gains and underperforming the MSCI World Equity Index.

**Domestic.**

For South Africa the moment of truth arrived during the month in the form of the three major ratings agencies pronouncing on their evaluations of the local economy. Fitch opted to keep its ratings unchanged at BB+ with a stable outlook. Moody's opted to place its ratings on review for a downgrade - the decision being held over until after the February budget. S&P on the other hand, not unexpectedly, decided to downgrade SA's long term local and foreign currency ratings by one notch to BB+ and BB respectively. The announcement triggered a sharp fall in the Rand which however recovered rapidly to gain 3.04% against the Dollar for the month.

The Reserve Bank kept interest rates unchanged when the monetary policy committee (MPC) wrapped up its last meeting for the year. That leaves the repo rate at 6.75%, where it has been since July's cut of 25 basis points. While SA's moribund economy could do with the potential stimulatory effects of a rate cut, the threat of the downgrades to junk constrained the Reserve Bank. Downgrades negatively affect the rand, which has a direct impact on inflation, and the bond market, affecting the price government pays to borrow money.

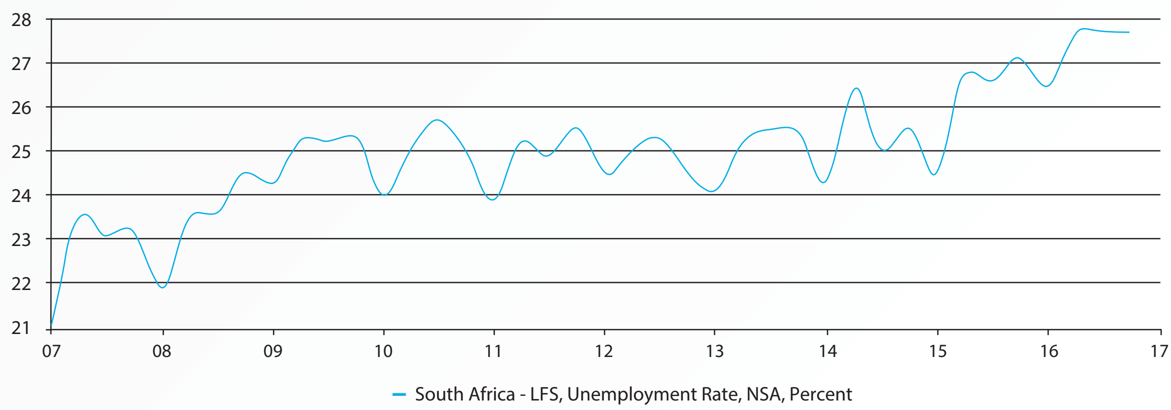
The RMB/BER Business Confidence Index effectively remained flat at 34 in the fourth quarter. While this is an improvement on the seven and a half-year low of 29 in the second quarter, sentiment clearly remained depressed. Business Confidence in South Africa decreased to 34 in the fourth quarter, from 35 in the third quarter of 2017. Business Confidence in South Africa averaged 44.64 from 1975 until 2017, reaching an all-time high of 91 in the third quarter of 1980 and a record low of 10.20 in the third quarter of 1985.

South African government bonds remained relatively steady at higher levels tracking a stronger Rand. The yield on the R186 bond, which measures the cost of government borrowing, has dropped significantly since - in line with the local currency. The R207 was bid as 7.950% from 7.965%. The positive sentiment came amid news that the government plans to remedy its public finances by cutting expenditure and raising taxes, measures it hopes will ward off any further credit rating downgrades.

Consumer inflation dipped as expected in October, thanks in part to smaller fuel price increases and a continued moderation of food inflation. The headline CPI annual inflation rate in October 2017 was 4.8%. This rate was 0.3p% lower than the corresponding annual rate of 5.1% in September 2017.

Mining production decreased by 0.9% year-on-year in September 2017. The largest negative contributors were PGMs and iron ore. 'Other' non-metallic minerals and manganese ore were significant positive contributors.

Manufacturing production decreased by 1.6% in September 2017 compared with September 2016. This decrease was mainly due to lower production in the following divisions: wood and wood products, paper, publishing and printing, petroleum, chemical products, rubber and plastic products and motor vehicles, parts and accessories and other transport equipment.




Source: GTC/FactSet

Statistics South Africa announced the unemployment rate in South Africa was stable at 27.7% for the third quarter in a row, although still at record high levels last seen in 2003.

The quarterly labour force survey results showed there was a 92 000 growth in employment in the third quarter, but the number was offset by 33 000 extra job seekers during the period. Although the jobless rate remained the same at 27.7%, it is 0.6 of a percentage point higher than the same period last year.

The expanded unemployment rate, which includes those who wanted to work, but stopped looking for jobs, increased by 0.2 of a percentage point to 36.8% in the third quarter.

In the face of a plethora of unfavourable economic news, in particular the S&P downgrade, the local stock market has displayed remarkable resilience and whilst a period of consolidation is on the cards, it remains prudent to stay the course and remain fully invested.

# GTC fund performances - November 2017

| Client portfolios | 1 Year % | 3 Year* % | 5 Year* % | 7 Year* % | 10 Year* % |
|---|---|---|---|---|---|
| GTC EB Conservative | 9.10 | 6.44 | 7.02 | 7.11 | 6.68 |
| GTC Conservative Inflation Target - CPI+1% | 5.75 | 6.26 | 6.44 | 6.54 | 6.91 |
| GTC EB Moderate | 11.21 | 6.50 | 8.70 | 8.65 | 8.22 |
| GTC Moderate - Inflation Target - CPI+3% | 7.75 | 8.26 | 8.44 | 8.54 | 8.91 |
| GTC EB High Equity | 15.36 | 8.02 | 10.36 | 10.05 | 9.24 |
| GTC High Equity Inflation Target - CPI+5% | 9.75 | 10.26 | 10.45 | 10.55 | 10.91 |
| GTC EB Market Plus | 16.71 | 7.49 | 11.53 | 11.46 | 10.30 |
| GTC EB Market Plus - Benchmark | 16.78 | 8.41 | 11.76 | 12.18 | 8.76 |
| | | | | | |
| FTSE/JSE All Share Index (ALSI)^ | 20.75 | 7.72 | 11.04 | 11.87 | 8.58 |
| FSTE/JSE Shareholder Weighted Index (SWIX)^ | 21.99 | 7.90 | 12.07 | 13.02 | 9.64 |
| BEASA All Bond Index (ALBI)^ | 4.38 | 2.89 | 4.02 | 5.80 | 6.48 |
| Cash (SteFi)^ | 5.99 | 5.53 | 4.89 | 4.66 | 5.58 |
| MSCI World Index (R)^ | 17.01 | 12.24 | 17.91 | 16.99 | 8.25 |

*Annualised

GTC Performances are shown net of all fees

^Benchmark returns include 1.5% fees

The **GTC Conservative Fund** was ahead of its inflation adjusted target over the short and medium term periods.

The **GTC Moderate Fund** was ahead of its inflation adjusted target over the short term and performing in line over longer term periods. Equity markets remain the key driver of performance.

The **GTC High Equity Fund (previously Aggressive)** was ahead of its inflation adjusted target over the short term but lagging over the longer term periods. Equity markets remain the key driver of performance.

The **GTC Market Plus Fund** was ahead of its target over the long term but lagging over the medium term. The fund has managed to capture a large portion of the recent equity market upside.

# Contact us

**Head - Investment Analytics**
**Clive Eggers**
**T** +27 (0) 21 412-1062
**E** ceggers@gtc.co.za

**Strategic Partners**
**Roger Schärges**
**T** +27 (0) 10 597-6858
**E** rscharges@gtc.co.za

**Head - Healthcare**
**Jillian Larkan**
**T** +27 (0) 21 412-1062
**E** jlarkan@gtc.co.za

**Head - Employee Benefits Administration**
**Nadira Sarang**
**T** +27 (0) 21 713-8500
**E** nsarang@gtc.co.za

**Senior Consultant - Wealth Management**
**Jenny Williams**
**T** +27 (0) 10 597-6840
**E** jwilliams@gtc.co.za

**Head - Employee Benefits Consulting**
**Toy Otto**
**T** +27 (0) 10 597-6861
**E** totto@gtc.co.za

**Head - Marketing & Media**
**Vanessa Partington**
**T** +27 (0) 10 597-6825
**E** vpartington@gtc.co.za

**Managing Director - Risk Solutions**
**Roy Wright**
**T** +27 (0) 21 286-0037
**E** rwright@gtc.co.za

**Group Chief Operating Officer**
**Farhadh Dildar**
**T** +27 (0) 10 597-6830
**E** fdildar@gtc.co.za

**Group Chief Executive Officer**
**Gary Mockler**
**T** +27 (0) 10 597-6831
**E** gmockler@gtc.co.za

**Head - Finance**
**Andrea Diamond**
**T** +27 (0) 10 597-6877
**E** adiamond@gtc.co.za

**Compliance Officer**
**Dale Nussey**
**T** +27 (0) 10 597-6828
**E** dnussey@gtc.co.za

**Director - Asset Management**
**Manty Seligman**
**T** +27 (0) 10 597-6800
**E** mseligman@gtc.co.za

formerly Grant Thornton Capital

**a** GTC@Grant Thornton, The Wanderers Office Park, 52 Corlett Drive, Illovo, 2196
**p** P O Box 55118, Illovo, 2116
**t** +27 (0) 10 597 6800
**f** +27 (0) 10 597 6801
**w** www.gtc.co.za

GTC (Pty) Ltd.
**reg. no.** 1996/001488/07
**directors** G.K. Mockler, F. Dildar

An Authorised Financial Services Provider
**FSP. no.** 731

**GTC is nationally represented in Johannesburg, Cape Town and Durban**

**GTC Group products and services include:** Employee Benefits Consulting • Employee Benefits Administration • Private Client Wealth Management • Healthcare Consulting • Short-Term Risk Solutions • Stockbroking • Derivatives Trading • Unit Trust Management • Asset Management • Fiduciary Services